



**Joint Legislative Audit Committee**  
**Office of the Auditor General**



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**FINANCIAL AUDIT REPORT  
DEPARTMENT OF CORPORATIONS  
YEAR ENDED JUNE 30, 1978**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the Department's system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

**REPORT TO THE  
CALIFORNIA LEGISLATURE**

REPORT OF THE  
JOINT REVENUE SHARING TASK FORCE  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE  
AND THE  
DEPARTMENT OF FINANCE

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FINANCIAL AUDIT REPORT  
DEPARTMENT OF CORPORATIONS  
YEAR ENDED JUNE 30, 1978



Joint Legislative Audit Committee  
OFFICE OF THE AUDITOR GENERAL  
California Legislature



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December 14, 1978

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The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the Auditor General's financial audit of the Department of Corporations.

The auditors are Curt Davis, CPA, Audit Manager; Merrill Tompkins, CPA; and Reid Bristow.

Sincerely,

RICHARD ROBINSON  
Assemblyman, 72nd District  
Chairman  
Joint Legislative Audit Committee

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## INTRODUCTION

In compliance with regulations promulgated by the Federal Office of Revenue Sharing, we have conducted a financial audit of the Department of Corporations. This audit was conducted under the authority vested in the Auditor General by Government Code Section 10527 and in the Department of Finance by Government Code Section 13294.

The principal objectives of the Department of Corporations are:

- To provide appropriate controls over the solicitation, marketing and sale of securities and franchises to California residents
- To install and maintain adequate deterrents and safeguards against unfair or unscrupulous promotional schemes
- To take suitable action when dishonest and questionable practices occur in such sales
- To fulfill statutory demands to provide regulatory surveillance over companies engaged in the business of lending money or receiving funds from the public in a fiduciary capacity
- To fulfill statutory requirements to provide regulatory surveillance over companies engaged in the business of providing health care to plan enrollees.

The Department of Corporations' programs are supported by appropriations from the State General Fund.

## AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature  
and the Department of Finance:

We have examined the combined balance sheet of the Department of Corporations as of June 30, 1978, and the related statements of revenues, expenditures and changes in operating clearing and fund balances for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The balance sheet of the Department of Corporations Trust Account includes securities and other property held in trust by the Commissioner of Corporations recorded at \$9,431,184. The actual value of the securities and other property is undeterminable, therefore, we are unable to obtain sufficient evidence to form an opinion. Accordingly, we do not express an opinion on the Trust Account. (Note 5.)

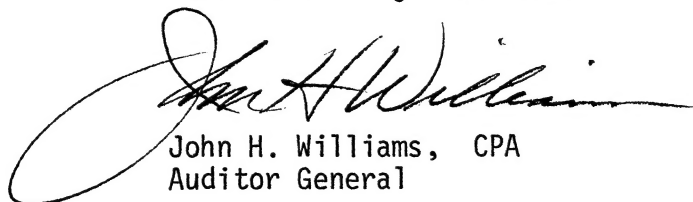
In our opinion, the accompanying financial statements, except as stated in the preceding paragraph, present fairly the financial condition of the Department of Corporations as of June 30, 1978, and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total - Memorandum Only" for June 30, 1978, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and in our opinion, except for securities and other property held in trust, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet, statement of revenues, expenditures and changes in operating clearing and statement of changes in fund balance for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

In connection with our examination, we also made a study and evaluation of the Department of Corporations' system of internal accounting control. Our findings are set forth under the heading "Comments and Recommendations."

Revenue Sharing Task Force



John H. Williams, CPA  
Auditor General

Date: October 13, 1978  
Staff: Curt Davis, CPA  
Merrill E. Tompkins, CPA  
Reid C. Bristow

DEPARTMENT OF CORPORATIONS  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1978  
(With Unaudited Amounts for 1977)

ASSETS	Governmental Fund	Fiduciary Fund		Account Group	TOTAL (Memorandum Only)	
	General Fund	Trust Account	Special Deposit Fund	General Fixed Assets	June 30, 1978	June 30, 1977
Cash	\$108,084	\$ -	\$ -	\$ -	\$ 108,084	\$ 24,585
Revolving Fund Cash	1,803	-	-	-	1,803	12,480
Cash in the State Treasury	-	-	2,190	-	2,190	164
Cash on Hand in Agency	33,555	-	-	-	33,555	23,808
Securities Held in Trust - Depositors, State Treasurer (Note 5)	-	761,000	-	-	761,000	681,000
Securities Held in Trust - Depositors, Commissioner of Corporations (Note 5)	-	9,431,184	-	-	9,431,184	9,765,698
Accounts Receivable (Note 10)	342,836	-	-	-	342,836	233,773
Prepayments to Other Funds	77,803	-	-	-	77,803	26,715
Expense Advances to Employees	5,467	-	-	-	5,467	25,677
Other Deferred Charges	1,200	-	-	-	1,200	730
Equipment (Note 11)	-	-	-	404,728	404,728	293,200
<b>TOTAL ASSETS</b>	<b>\$570,748</b>	<b>\$10,192,184</b>	<b>\$2,190</b>	<b>\$404,728</b>	<b>\$11,169,850</b>	<b>\$11,087,830</b>
<b>LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY</b>						
Liabilities:						
Accounts Payable (Note 2)	\$ 98,478	\$ -	\$ -	\$ -	\$ 98,478	\$ 198,398
Encumbrances Outstanding (Note 4)	14,121	-	-	-	14,121	-
Fund Equity:						
Fund Balance - Designated for Public Protection	-	10,192,184	-	-	10,192,184	10,446,698
Investment in General Fixed Assets (Note 3)	-	-	-	404,728	404,728	293,200
Reserve for Deferred Accounts Receivable	69,865	-	-	-	69,865	61,788
Reserve for Uncleared Collections	31	-	-	-	31	-
Special Deposit Fund Balance	-	-	2,190	-	2,190	164
Operating Clearing (Note 6)	388,253	-	-	-	388,253	87,582
<b>TOTAL FUND EQUITY</b>	<b>458,149</b>	<b>10,192,184</b>	<b>2,190</b>	<b>404,728</b>	<b>11,057,251</b>	<b>10,889,432</b>
<b>TOTAL LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY</b>	<b>\$570,748</b>	<b>\$10,192,184</b>	<b>\$2,190</b>	<b>\$404,728</b>	<b>\$11,169,850</b>	<b>\$11,087,830</b>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CORPORATIONS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN OPERATING CLEARING - BUDGET AND ACTUAL  
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	1978			1977
	Budget As Adjusted	Actual	Over (Under) Budget	Actual
<u>Sources of Financial Resources</u>				
Revenues: (Note 7)				
Licenses and Fees	\$ 8,603,432	\$8,206,359	\$ (397,073)	\$4,136,269
Miscellaneous Income	<u>1,000</u>	<u>37,327</u>	<u>36,327</u>	<u>33,533</u>
Total Revenues <sup>a/</sup>	8,604,432	8,243,686	(360,746)	4,169,802
Less Remittance to General Fund	<u>8,604,432</u>	<u>8,139,349</u>	<u>465,083</u>	<u>4,134,776</u>
Net Revenue	-	104,337	104,337	35,026
Other Sources:				
Support Appropriation (Note 8)	6,507,191	6,283,042	(224,149)	6,040,516
Reimbursements (Note 12)	3,678,655	3,018,551	(660,104)	1,778,377
Refunds to Reverted Appropriations	<u>-</u>	<u>673</u>	<u>673</u>	<u>107</u>
Total Sources of Financial Resources	<u>10,185,846</u>	<u>9,406,603</u>	<u>(779,243)</u>	<u>7,854,026</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Personal Services	8,235,355	7,583,036	( 652,319)	6,505,713
General Expense	283,095	274,022	( 9,073)	310,937
Printing	50,170	23,795	( 26,375)	56,063
Communications	233,564	230,736	( 2,828)	198,725
Travel-in-State	350,740	349,051	( 1,689)	277,498
Travel-Out-of-State	20,000	11,912	( 8,088)	13,859
Facilities Expense	386,717	373,453	( 13,264)	346,815
Hearing Services - Office of				
Administrative Hearings	15,000	9,277	( 5,723)	4,752
Consultant and Professional Services	249,469	54,185	( 195,284)	55,038
Attorney General Services	129,500	103,694	( 25,806)	123,731
Equipment	72,736	69,877	( 2,859)	72,604
Data Processing - Department of				
General Services	44,500	24,585	( 19,915)	18,150
Contingency Loan Repayment	100,000	1,563	( 98,437)	-
Consolidated Data Center	15,000	7,904	( 7,096)	8,503
Prior Year:				
Prior Year Appropriation Adjustment (Note 9)	-	(11,158)	( 11,158)	(4,304)
Total Uses of Financial Resources	<u>\$10,185,846</u>	<u>9,105,932</u>	<u>\$(1,079,914)</u>	<u>7,988,084</u>
Net Increase (Decrease) in Operating Clearing During the Year		300,671		(134,058)
Operating Clearing - July 1		<u>87,582</u>		<u>221,640</u>
Operating Clearing - June 30		<u>\$ 388,253</u>		<u>\$ 87,582</u>

<sup>a/</sup> Revenues are not budgeted in the legislative budget bill. The amounts shown on this statement are agency budgeted revenue amounts that are shown in the Governor's Annual Budget.

The notes to the financial statements are an integral part of this statement.



DEPARTMENT OF CORPORATIONS  
STATEMENT OF CHANGES IN FUND BALANCE  
SPECIAL DEPOSIT FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	<u>1978</u>	<u>1977</u>
Fund Balance - July 1	\$ 164	\$164
Additions:		
Deposit of Unclaimed Funds	2,026	-
Deductions:		
Funds Paid to Depositors	<u>-</u>	<u>-</u>
Fund Balance - June 30	<u>\$2,190</u>	<u>\$164</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CORPORATIONS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1978

1. Summary of Significant Accounting Policies

The preceding financial statements reflect the financial condition and results of operations of the Department of Corporations. The accounts are maintained in the General Fund, in a Trust Account for securities held as guaranty deposits and in escrow, and in the Special Deposit Fund.

The accounting policies of the Department of Corporations conform to generally accepted accounting principles as contained in the State Administrative Manual.

General Fund

The Department of Corporations accounts for only its portion of the State's General Fund. Central accounts for the General Fund are maintained by the State Controller and consolidated General Fund statements are published by that office.

Income

Throughout the fiscal year, income is accounted on a cash basis, except appropriation reimbursements which are recorded when billed. At June 30, the accounts are adjusted to a modified accrual basis. All earned but uncollected revenues and unbilled reimbursements are accrued, except revenue receivables estimated not to be collectible within one year which are fully reserved.

### Expenditures

During the year appropriation expenditures are, in general, recorded at the time claims for payment are filed with the State Controller. An exception to this procedure occurs when transfers of money to the Architecture Revolving Fund for capital outlay are recorded as expended at the time of transfer even though the actual expenditures from that fund may not occur until a later date. At June 30, all valid expenditure commitments are accrued as expenditures.

### Trust Account

Bonds, certificates of deposit, passbooks and stocks deposited by corporations and held by the State Treasury as required by various licensee laws are accounted for as Securities Held in Trust--Depositors, State Treasurer.

Securities and leases deposited by corporations with the Department as a condition of escrow under the Corporate Securities Law are accounted for as Securities Held in Trust--Depositors, Commissioner of Corporations.

### Liabilities

Retirement Plan: Regular employees of the Department of Corporations are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system

earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year included in the expenditures-personal services account were \$921,706.

Vacation and Sick Leave: The Department does not record the costs of vacation and sick leave at the time the benefits are accumulated. At the time of usage, the expenditures-personal services account is charged.

#### General Fixed Assets

Purchases of equipment are recorded as expenditures in the year of acquisition. The aggregate cost, with the exception of certain non-expendable equipment items not on the State Administrative Manual equipment list, is capitalized in the General Fixed Assets account group. Non-expendable equipment, generally valued at \$150 or over with a useful life of two years or more, is recorded at original cost or, if not available, at fair market value.

#### Special Deposit Fund

Monies received or collected by a state agency for specific purposes for which no fund has been created in the State Treasury are accounted for in the Special Deposit Fund. Separate fund accounts for each agency are maintained by the State Controller and consolidated Special Deposit Fund statements are published by that office.

2. Accounts Payable

Accounts payable include all unpaid liabilities for goods and services received as of June 30, 1978. Accordingly, they also include liabilities whose disbursement requests were submitted to the State Controller by June 30, but which he had not paid as of that date.

3. Investment In General Fixed Assets

This account includes an unpaid balance of \$48,112 for future installment payments on lease/purchase contracts, payable in the next fiscal year.

4. Encumbrances Outstanding

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services had been received by June 30.

5. Securities Held in Trust

Depositors, State Treasurer: The Department of Corporations administers the Corporate Securities Law, Escrow Law and Trading Stamp Law. Under these licensing laws, corporations are required to post bonds when applying for licenses. In lieu of the bonds, corporations may submit certificates of deposit, passbooks or stocks. The holdings at the State Treasury are primarily certificates of deposit and passbooks.

Depositors, Commissioner of Corporations: Under the Corporate Securities Law, the commissioner may impose a condition of qualification upon permits authorizing the issuance and sale of securities. This condition is imposed when the commissioner finds that without such condition the offering will be unfair, unjust or inequitable. Prior to a 1968 revision of the law, the condition most frequently imposed was the requirement that securities be deposited in escrow. This requirement was to restrict the subsequent transfer of securities due to the lack of jurisdiction over subsequent non-issuer transactions. The 1968 law revision gave the commissioner another means of qualification, the imposition of a legend condition upon securities to restrict transferability. When acting as escrow holder for securities, the commissioner may destroy any certificates evidencing securities of any corporation which has been dissolved or whose charter has been suspended for two years for non-payment of taxes or penalties. The commissioner is required to maintain a record of the certificates and other pertinent records destroyed.

The Department of Corporations values the securities held in escrow at \$1.00 per share. Documents, such as oil lease interests, are valued at \$1.00 per document. The \$9,431,184 figure carried on the statements, therefore, is not the true value of the securities and documents held. The securities and documents are generally those of defunct companies. As such, the value of the securities and documents is undeterminable. The Department of Corporations estimates that the actual value of these securities is nominal.

6. Operating Clearing

This account is the connecting link between the Department of Corporation's portion of the General Fund and the central accounts of the General Fund maintained by the State Controller. The account balance at June 30 represents a clearing account between the Department of Corporations and the State Controller.

7. Revenues

Revenues collected by a state agency that is supported by an appropriation from the General Fund are considered General Fund revenues and must be remitted in total to the State Treasurer.

8. Support Appropriation

Support appropriation is the portion of the General Fund allocated to the Department of Corporations by the legislative budget act.

9. Prior Year Appropriation Adjustment

This account shows the difference between the net amount of expenditures, abatements and reimbursements accrued as of the previous June 30 and the actual amount of expenditures, abatements and reimbursements during the current fiscal year (including accruals) for appropriations no longer available for encumbrance.

10. Accounts Receivable

Accounts Receivable consist of uncollected charges for regulatory examinations or investigations made by the Department.

11. Equipment

Equipment includes items acquired by lease/purchase contracts. At June 30 the outstanding liability on those contracts was \$48,112.

12. Reimbursements

Reimbursements are for charges to regulated companies for the department's costs in conducting regulatory examinations or investigations.



## COMMENTS AND RECOMMENDATIONS

### Internal Accounting Control

As part of our examination, we made a study of the Department of Corporations' system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist in planning and performing the examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can

result from misunderstood instructions, mistaken judgement, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to executing and recording transactions or with respect to the estimates and judgements required in preparing financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements was made in accordance with generally accepted auditing standards. This included studying and evaluating the Department of Corporations' system of internal accounting control for the year ended June 30, 1978. This study and evaluation was designed for the purposes set forth in the first paragraph of this section of the report and would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed the following conditions which we believe to be weaknesses.

Separation of Duties Over Cash Transactions is Inadequate

The separation of duties of employees handling cash transactions does not comply with the State Administrative Manual (SAM) section 8080.

The most serious weaknesses over the separation of duties involving cash transactions are:

- The person who authorizes disbursements also has the authority to sign checks
- The person who prepares the checks also mails or distributes the checks. SAM section 8080 states:  
"Checks will not be routed for mailing or distribution through the person who authorized the disbursement or prepared the check."
- The person who prepares and mails or distributes the checks also maintains the disbursement register, controls blank check stock and has access to the safe.

Recommendation: Cash receipt and disbursement duties be separated as prescribed by SAM section 8080.

Cash Receipts Are Recorded on Dates Different From the Dates of Actual Receipt

Tests of cash receipts disclosed instances where the date of posting the receipt in the cash receipt register was different from the date of actual receipt. Good internal control procedures call for the recording of cash receipts on the date of actual receipt.

Recommendation: Cash receipts be recorded on the date of actual receipt.

The foregoing conditions were considered in determining the nature, timing and extent of audit tests to be applied in our examination of the financial statements, and this presentation of such conditions does not modify our opinion report on such financial statements.

#### AUDIT ADJUSTMENTS

The aforementioned financial statements contain adjustments to the following accounts:

- Accounts Payable
- Investment in General Fixed Assets
- Equipment
- Liability for Installment Purchase Contracts
- Encumbrances Outstanding

The adjustments were necessary to correct the Department's accrual entries. The Department concurred with the suggested journal entries and accordingly adjusted the financial records to reflect those adjustments.

# Memorandum

To : SAMUEL E. HULL, Chief  
Joint Revenue Sharing Task Force  
Office of the Auditor General  
Department of Finance  
1025 P Street, Room 283  
Sacramento, CA 95814

Date : December 6, 1978

File No.:

Subject: REPORT OF EXAMINATION  
July 1, 1977 to  
June 30, 1978

From : Department of Corporations  
1025 P Street, Room 205  
Sacramento, CA 95814

We have completed our review of your letter of December 1, 1978 containing your comments and recommendations with respect to your recent examination of the Financial Statements of the Department of Corporations covering the period July 1, 1977 to June 30, 1978.

Obviously, our greatest concern is the exception you have expressed that will lead to your qualified opinion of our June 30, 1978 Financial Statements that will appear in your final report. We wish to provide the following comments with respect to this exception.

THE BALANCE SHEET OF THE DEPARTMENT OF CORPORATIONS' TRUST ACCOUNT INCLUDES SECURITIES AND OTHER PROPERTY HELD IN TRUST BY THE COMMISSIONER OF CORPORATIONS RECORDED AT \$9,431,184. THE ACTUAL VALUE OF THE SECURITIES AND OTHER PROPERTY IS UNDETERMINABLE; THEREFORE, WE ARE UNABLE TO OBTAIN SUFFICIENT EVIDENCE TO FORM AN OPINION.

It has long been the practice of the Department to arbitrarily value the securities of others held in the Commissioner's custody at \$1.00 per share merely as an accountability control feature. In this regard, I direct your attention to portions of SAM Sections 19410 and 19422, which appear to support our current practice. Note the following.

Section 19410, last two sentences of first paragraph:

"Securities held as guaranty deposits will be valued in accordance with individual agency requirements. Differences in statutory and operating requirements for the handling of these securities make it impossible to prescribe a fixed valuation procedure for all agencies."

Section 19422, first paragraph, last three sentences:

"No-par stock will be assigned an arbitrary value of one dollar per share. Amounts are entered on property receipts for securities for custody accounting purposes only. They have no relationship to market values."

Samuel E. Hull  
Re: REPORT OF EXAMINATION  
July 1, 1977 to June 30, 1978

-2-

December 6, 1978

As stated in your December 1, 1978 report draft, the actual value of these securities is undeterminable. We share that view. Granted, the Balance Sheet figure may be either under or overstated, as compared to actual value, but the offsetting Balance Sheet account is under or overstated to the same degree. As a result, there is no effect on the Department's financial condition.

A disclosure of the purposes of the specific General Ledger account, together with a statement that the balance of the account has no relationship to market values, could be made in a footnote to the Balance Sheet. A Qualifying Opinion certainly appears inappropriate in this instance.

We would be pleased to further discuss the above matter with you, at your convenience.

We have reviewed each of your comments and recommendations relating to improvements in our internal control and accounting procedures and offer the following responses.

Audit comment - A person who authorizes disbursements also has the authority to sign checks.

SAM requirement - Section 8080 prescribes procedures to be used except where the number of employees is so small as to make it impossible. Included in these procedures is the requirement that the person authorizing disbursements not be authorized to sign checks.

Corrective action - SAM Section 8080 also states that the person authorized to sign checks must be at either the Business Service Officer I or the Accounting Officer II level. At the Department of Corporations, the Fiscal Officer is the only person at the required level who is even remotely connected with the accounting operation. Therefore, he is the only person available to sign the checks. Additionally, one of the major functions of any Fiscal Officer is to provide financial control. Without the authority to approve disbursements, the Fiscal Officer would be unable to carry out this important function. SAM Section 8080 recognizes that small departments with limited staff may not be able to comply fully with its requirements, which are qualified by the statement "except where the number of employees is so small as to make it impossible."

Audit comment - A person who prepares checks also mails or distributes checks.

SAM requirement - Section 8080 states that the person who prepares checks should not distribute them or prepare them for distribution.

Corrective action - Responsibility for mailing or distributing all checks will be assigned to the cost desk which prepares no checks.

Samuel E. Hull

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December 6, 1978

Re: REPORT OF EXAMINATION

July 1, 1977 to June 30, 1978

Audit comment - The person who prepares and mails or distributes the checks also maintains the disbursement register, controls blank check stock and has access to the safe.

SAM requirement - Section 8080 prohibits any person from performing more than one of the above functions.

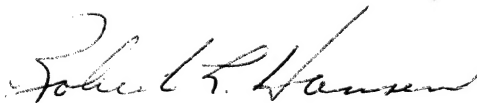
Corrective action - With the small number of positions (4) in the Accounting Section and the need for a backup for some duties, this Department will never be in total compliance with Section 8080. We will, however, continue our efforts to minimize the areas of non-compliance, keeping in mind that the work must get done and that an unrealistic share of the work load cannot be assigned to any person for the sake of compliance. Specifically, the following changes will be instituted in response to the above comment concerning the cash desk:

1. Responsibility for distributing checks will be transferred to the cost desk.
2. The person occupying the cash desk will no longer have access to the safe.

Audit recommendations - Cash receipts be recorded on the date of actual receipt.

Corrective action - Certain procedural changes will be made in the cashiering unit to eliminate those instances where receipts are recorded a day later than they were actually received.

If you have any questions or require any additional information, please contact me.



ROBERT L. HANSEN  
Chief, Administrative  
Services Division  
(916) 485-5541

RLH:eg

Office of the Auditor General

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Democratic/Republican Caucus  
California State Department Heads  
Capitol Press Corps